

## SECTION 8

# UPDATES ON EXAM REENGINEERING

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### IRS is Changing the Face of Its Examinations

The [Small Business/Self Employed](#) (SB/SE) division of the Internal Revenue Service initiated its Examination Reengineering effort to improve the quality and consistency of income tax examinations.

SB/SE interviewed a wide range of individuals, both internally and externally, to identify best practices and potential areas of improvement in its examinations. Among the individuals the reengineering teams interviewed were previously audited taxpayers, tax practitioners, federal and state government agencies, financial institutions, examination employees, and many others involved in the tax community.

SB/SE tested the redesigned examination process in both rural and urban areas to ensure the new process is equally effective and consistent throughout the country. The reengineered process was adjusted according to the feedback from taxpayers, practitioners and employees involved in the examinations during the test period.

Some of the features of the reengineered field examination process are:

- Clearly communicated expectations of both the taxpayer and field agent through mandatory discussions between the revenue agent and taxpayer regarding the specific examination issues, required documentation, and a mutually agreed upon date to complete the examination.
- At the beginning of each examination, field agents and their managers will meet to discuss the agent's approach to the examination, the plan to close the examination, and the mutual commitment date arrived at with the taxpayer.
- Field agents will use standardized templates for every examination issue to gather the information necessary to resolve issues. Agents will use a standardized guide when deciding if additional issues need to be added to the examination. The agent will explain to the taxpayer if any additional issues are included in the examination.

Some of the features of the reengineered office examination process are:

- Clearly communicated expectations of both the taxpayer and the examiner prior to the initial appointment. Office examiners will provide the taxpayer with focused document requests that specifically identify the information needed.
- Improved flexibility in the scheduling process will enable examiners and taxpayers to reduce the time it takes to complete an examination.
- Office examiners will use standardized templates for every examination issue to gather the information necessary to resolve issues. Examiners

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will use a standardized guide when deciding if additional issues need to be added to the examination. The examiner will explain to the taxpayer if any additional issues are included in the examination.

With the final adjustments made, SB/SE will train all of its income tax field agents and office examiners during the 2004 fiscal year. Field agent training began in December 2003 and training for the office examiners began in January 2004.

The redesigned examination process will benefit taxpayers and practitioners because the audits will be better focused on relevant issues, expectations between the examiner and taxpayer will be clearly communicated, and the time it takes to complete the examination may be reduced.

The consistency and efficiency of the reengineered process benefits both the taxpayer and the examiner. Clearly communicated expectations and the use of standardized examination tools and templates ensure taxpayer rights are protected, that the tax laws are administered equitably and fairly, and the burden of preparing for an examination is reduced.